

ATTACHMENT 1

DRAFT MINUTES

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COMMONWEALTH OF PENNSYLVANIA
COAL AND CLAY MINE SUBSIDENCE INSURANCE FUND BOARD MEETING**

January 12, 2017

A meeting of the Coal and Clay Mine Subsidence Insurance (MSI) Board (Board) was called to order at 10:00 a.m. on January 12, 2017, in the 12th Floor Conference Room of the Rachel Carson State Office Building, 400 Market Street, Harrisburg, Pennsylvania.

Board members present at the meeting were as follows: Thomas Callaghan, Director, Bureau of Mining Programs, Department of Environmental Protection (DEP), Designated Chair for Patrick McDonnell, Acting Secretary of DEP; Mark Lersch, Director, Bureau of Property and Casualty Insurance, Designated Representative for Board Member Teresa D. Miller, Commissioner of Insurance; and Christopher Donahue, Assistant Counsel, Designated Representative for Board Member Timothy Reese, State Treasurer.

Also attending the meeting were Mike Kondrack, Cash Management and Investments, State Treasury; Jennifer Steigelman and Jeremy Barge, Office of the Budget, Comptroller Operations; and the following DEP employees: Patrick McDonnell, Acting Secretary of DEP; Laura Edinger, Office of Policy; Joseph Iole, Office of Chief Counsel; Paul Pocavich, Chief of Environmental Analysis and Support Division, Bureau of Mining Programs; Lawrence Ruane, MSI Program Administrator; and Amy Berrios, Administrative Officer.

Issues discussed and actions taken at the meeting:

Call to Order/Approval of the May 6, 2016 MSI Board Meeting Minutes

The Board reviewed and unanimously approved as final the draft minutes of the May 6, 2016 MSI Board Meeting.

Opening Remarks

Patrick McDonnell, in his capacity as the mandated chairperson of the MSI Board, introduced himself to the designated board members from the State Treasury and the Insurance Department. He then provided a summary of the goals of DEP to safeguard the environment and noted the relationship of those goals to the purpose of the MSI Fund and Program, which is to assure that there is a reliable source of compensation for losses caused by mine subsidence.

Program Reports

Reports that demonstrate the operational and financial performance of the MSI Fund over the most recent ten-year period were provided by DEP staff. The reports demonstrated that the MSI Program's operations and finances during state fiscal year (FY) 2015 (July 1, 2015 through June 30, 2016) were consistent with the performance during the previous reported years. During FY 2015, the number of subscriptions rose slightly from 58,011 to 58,137 while the average policy value rose from about \$182,000 to about \$187,000 and the underwritten value of all the policies in force climbed from about \$10.5 billion to about \$10.9 billion dollars. The average premium per \$1,000 of coverage remained at its previous amount of about 47 cents. The number of mine subsidence damage claims filed during FY 2015 was 248, up from 218 in FY 2014. However, there were only 7 supported claims during FY 2015 and \$191,128 in damage claim payments.

Financial Reports

Financial reports provided by the Office of Comptroller's Operations demonstrated that during FY 2015 the financial position of the MSI Fund continued to be sound. Combined premium and interest income of \$7,427,040 were sufficient to offset all administrative and claim expenses of \$3,397,430 while also contributing \$4,029,610 to the MSI Fund's equity, which is extensively committed to reserves that offset potential losses. Loss reserves include reserves against potential losses that are assumed by the MSI Fund in lieu of the purchase of very costly reinsurance. The "Unreserved Fund Balance" at the close of FY 2015 was \$1,061,216.

Investment Reports

Investment reports provided by the Pennsylvania Treasury demonstrated that the value of the MSI Fund's investments continued to grow at a rate commensurate with other investments of the Commonwealth that are managed and invested by the Treasury Department. On a cost basis, the value of MSI funds invested by the Treasury during FY 2015 in its longer-term pool of funds (Pool 198) rose from \$87,890,692 to \$89,815,908. Pool 198 funds are invested in equities, fixed income investments, cash and cash equivalents, and alternative investments and had an average yield during FY 2015 of 2.25 percent. The amount of MSI funds invested in Treasury's pool of short-term funds (Pool 99) increased from \$13,554,641 to \$15,659,035 during FY 2015. At the close of FY 2015, Pool 99 funds were invested entirely in cash and cash equivalents and had an average yield of .37 percent.

Routine Business

After the review of the operational and financial performance of the MSI Program and Fund, the Board unanimously established that:

1. A policy coverage Inflation Factor of 0.6 percent will be established;
2. The existing Policy Premium Rates would be maintained;
3. Claim Payment Deductibles would remain at \$0;
4. The Incident Costs calculations would remain unchanged;
5. The existing insurance producer Commission Rates would be maintained;
6. The existing maximum coverage amount of \$500,000 would be maintained;
7. The formula used to calculate the Loan and Grant Funding Limit for grants and loans to improve the MSI Program would remain unchanged;
8. The formula to calculate the Reserves in Lieu of Reinsurance would remain unchanged; and
9. A Premium Distribution to subscribers was not proposed by the Board.

Reimbursement for Program Costs

The Board reviewed estimated costs for the administration of the MSI Program during FY 2017 and unanimously approved an expenditure of up to \$3,779,715 from the MSI Fund to reimburse DEP for the administrative costs of the MSI Program during FY 2017.

Other Business, Next Meeting and Adjournment

The Board established that the next regular meeting of the MSI Board will be held at 10:00 a.m. on January 11, 2018, in the 12th Floor Conference Room of the Rachel Carson State Office Building, 400 Market Street, Harrisburg, Pennsylvania. With no further business before the Board, the meeting was adjourned at 10:25 a.m.

KEY OBLIGATIONS:

- 1) DEP will revise program systems to provide a coverage inflation option of 0.6 percent.